EMR
NEWS

DEPARTMENT OF ENERGY, MINES AND RESOURCES
OTTAWA, CANADA

BOREAL INSTITUTE
LIBRARY

NOTES FOR AN ADDRESS

by

THE HONOURABLE DONALD S. MACDONALD
MINISTER OF ENERGY, MINES AND RESOURCES

to the

CANADIAN GAS ASSOCIATION

Toronto, Ontario

May 29, 1972

POLAR
PAM
108

POLARPAM

Rec'd: July 4/72
Order No.: Gift
Price: Press Conference kit
Acc. No.: E. Peterson

07725

In this first appearance before the Canadian Gas Association, my objectives are modest. I do not expect to revolutionize your understanding of the industry in which many of you have spent your lives, and to the inner workings of which I have been introduced only recently. In the few months since I became responsible for the Energy, Mines and Resources portfolio I have learned much, for the various sectors of the gas industry have many interfaces with government, and are communicative and articulate about their plans and problems. So are the officials in the energy sector of my Department and the National Energy Board. Hence I look upon this as an opportunity to tell you a little of the general impressions derived from my brief experience with your industry, and then to speak a little more specifically of some of the problems which I know concern you, and which concern me also.

It is sometimes convenient to think about a given kind of energy in the form of a question, whether it is available in adequate supply, with security of supply, and at reasonable prices.

The natural gas industry can hardly be faulted by consumers on the matter of providing energy at reasonable prices. Most sectors of the industry feel they are selling at prices more than reasonable from the buyers' point of view.

Security of supply is not a major problem for your industry and neither is it to the Government as far as natural gas is concerned. The systems the industry has built are reliable, efficient, take advantage of economies of scale, have many innovations to their credit, and are managed to the advantage of Canadian consumers. The security of supply to Eastern Canada was enhanced in the late 60's by the construction of a second transmission line south of the Great Lakes to carry Western Canadian gas to Central Canada, and is being further enhanced by the current looping of the line through Northern Ontario, now planned to be substantially completed by the end of 1974.

Adequacy of supply has many meanings. Basically, I think, it should mean the ability to supply on a continuing basis. The industry has demonstrated that it is able to supply not only the Canadian market, but also a substantial export market. The industry has offered an alternate fuel to a large part of Canada and has increased the energy options for Canadians, and for some of our neighbours as well.

Looking forward, however, our thoughts must turn to translating Canada's large potential of natural gas into discoveries and proven reserves. And here again the industry is in the midst of doing that. It has made discoveries in the Arctic, in the Mackenzie Delta, and on Sable Island. And of course discoveries continue to be made in the traditional supply areas, even if not recently at a pace as rapid as we might wish.

It will not be long before we can with some confidence start attaching reserve estimates to the new discoveries that have been made, and for which at the moment we have in some cases data from only one well. We will all feel better when further drilling has provided the basis for evaluation of the newly discovered fields.

I feel that, as regards the frontier areas, the emphasis is now shifting away from the point of initial discovery, and is focusing more closely on the question of threshold volumes. No longer is it a question of whether we will find gas, but rather how much is needed in order to justify the very large investments in pipe line and other facilities required to bring frontier gas to market.

There has been concern, both within the industry and in governments about the ability to continue to supply the ever-increasing demand for natural gas, whether from traditional or from frontier areas.

It is in the market place, however, that we will find out whether the test of adequacy and security of supply at reasonable price has been met. We are sure of one thing -- demand for energy will not be lacking. Many demand projections have been made. They vary in their assumptions and the indicated results. Broadly speaking, however, total energy demand in Canada is expected to double within the next fifteen years and double

Digitized by the Internet Archive
in 2022 with funding from
University of Alberta Libraries

https://archive.org/details/notesforaddresst00macd_1

again by the year 2000. Natural gas demand in Canada could reach an annual consumption level of 4 trillion cubic feet by the year 2000. If supplies were available from the Eastern Offshore areas to serve Eastern Canada, an added demand of perhaps another trillion cubic feet could be envisaged by the year 2000.

Of course this demand will not materialize if the supplies are not available, or if their cost is such that they are not competitive with other energy forms. It will take all the ingenuity of your industry to devise ways that will assure the competitiveness of these frontier resources in the market place. It is a tall order, but so were other endeavours at other times in our history. Only twenty years ago, many if not most Canadians thought it preposterous to dream of oil and gas pipe lines being built from Alberta to Central Canada. The new challenge is proportionately no greater than was that one.

The benefits of your industry to Canada have been substantial. You supply 2 million customers with clean and convenient energy for heat and special processes. Natural gas grosses more than a quarter of a billion dollars per year in export sales. The existence of the gas industry has resulted in the building of more than a hundred gas plants and many thousands of miles of pipe lines. In the last ten years (1962-71) net sales of gas in Canada amounted to a cumulative total of just under 7 trillion cubic feet. The revenue from these sales exceeded $4 billion at the point of sale to consumers.

But the real benefit has been to the people of Canada. Your industry has provided very substantial employment, both directly and indirectly; it has provided fuel and feedstocks, and now it is opening up areas that heretofore lay virtually unexplored.

The industry as a whole has exhibited remarkable initiative since its early beginnings. This initiative built the industry we now have. The reach northward appears to reflect the same sort of initiative, and I congratulate the groups who are planning to bring Northern frontier gas to market, on their research initiatives. Their efforts in the evaluation of the technology, the impact on the eco-system, on the earth itself, and on the people of the North, are essential to provide a

proper basis for decisions on construction of a pipe line from the North. I encourage them to be as thorough as possible in their investigations and studies. We in Government intend to be equally careful and thorough. It is in your own interest and the interest of all Canadians that a project of this complexity cause minimum disturbance to the environment, and also that an investment of the magnitude involved in such pipe lines be made only after the most thorough analysis of its implications and of the prospects for its recovery. It is also obvious that only one pipe line can be built from any one new major supply area, and hence obvious that when various approaches and proposals have been examined, one project, we hope the optimum choice, will go forward. Under the National Energy Board Act, the machinery exists to select from several competing projects the one best suited to the public interest, but I am hopeful that industry itself may come forward with one proposal which combines the best features of all the projects now being prepared. This is a challenge that requires and deserves the best kind of industrial diplomacy.

Thus far I have concentrated on the bright side of the natural gas industry. It would not be fair to you not to acknowledge some of the problems you have and will have in the future. Before turning to the issues in the energy and natural gas field, I would like to say that I regard your problems as my problems. I welcome any opportunity to discuss our problems. Some of you meet with me periodically in the National Advisory Committee on Petroleum. Many of you have met with me to discuss the plans and problems of your respective companies, and I trust that you will find it worth while to continue to keep me informed, for sound Government decisions require a sound information base.

We sometimes tend to forget how interwoven the various energy forms are. In the search for hydrocarbons, drillers are happy to find either oil or gas. Pumping stations on oil and gas transmission lines are frequently powered by electricity. Natural gas is used in Alberta, in the other Western Provinces and in Ontario, to generate electricity. Research is now in progress on converting coal to natural gas and to oil.

In the marketplace, natural gas is in competition with the other forms of energy, with furnace fuel oil and electricity in the residential and commercial sectors, and with bunker fuel oil and coal in the industrial sector. Many large customers have dual-firing equipment so that they can achieve economies by buying natural gas on an interruptible basis.

As we look north, we can see that the futures of oil and gas are inter-related. The natural gas at Prudhoe Bay in Alaska is associated with or dissolved in the oil in the reservoir, so that, consequently, gas and oil production must occur simultaneously. Therefore, a gas pipe line from Prudhoe Bay must follow the construction of an oil pipe line, or the gas must be injected back into the reservoir after being separated from oil as it is produced.

The United States Administration has now decided that Prudhoe Bay oil should be moved through the Alyeska pipe line across Alaska, rather than by a pipe line traversing Canada.

My colleagues and I were disappointed at that decision for two reasons:

1. because the TAPS route does involve a considerable environmental risk to the Canadian West Coast, and
2. because cooperative action would, we believe, have helped reduce the costs of bringing both Alaskan and Canadian hydrocarbons to market. But we recognize the right of the U.S. Administration to make its own decision about transporting American products over American territory and international waters to American markets.

One aspect of the American decision, however, that did give us pause was the Secretary of the Interior's insistence that for reasons of security the oil line must remain exclusively under U.S. control and be reserved to U.S. product. That imposes a restriction which is of course incompatible with our 1970 Northern Pipeline Guidelines and a restriction which would be totally unacceptable to the Government of Canada in connection with the Mackenzie Valley pipeline. That condition, if applied to natural gas as well, would of course rule out the possibility of Prudhoe Bay gas finding its way to market by the Mackenzie corridor. While I know that

much careful planning has gone into a number of proposals for a Mackenzie gas line, they have as I understand it, posited their recommendations on the inclusion of Prudhoe Bay gas.

Having in mind that restriction and also the possibility of further delay in actual production at Prudhoe Bay, and the progress being made in proving up gas reserves in the Mackenzie Delta area, it may well be that the initial gas pipe line may be founded on Canadian supplies alone. In that case we would be prepared to examine the feasibility of an extension to Prudhoe Bay, and an increase in the capacity of the basic pipe line system, to accommodate Prudhoe Bay gas at some future point of time, provided of course that arrangements suitable to Canada could be established.

Whenever pipe lines are built down the Mackenzie Valley, the Canadian Government would like to see both oil and gas lines, and also highway, communication and power line facilities, within a single transportation corridor, to minimize damage to the environment and ecology. It is obvious that the corridor concept can only be developed with due regard for differences of source and market, differences in the constraints imposed by elevation changes on oil and gas pipe lines respectively, and other causes for separating the two kinds of pipe line, and for separating pipe lines from the other kinds of transportation and communication facility. My colleague the Minister of Indian Affairs and Northern Development has indicated that in places the corridor may be as wide as fifteen or twenty miles, and I know he and my other colleagues agree that reason rather than any conceptual rigidity must determine the actual location of all such facilities.

We sometimes tend to forget some of the ways in which the Canadian natural gas industry is subject to the influence of actions of governments outside of Canada. The Mandatory Oil Import Control Program of the United States has had a dampening effect on Canadian oil exploration and hence gas finding rates in Canada. In the United States it has been said that control of wellhead prices depressed the market price which exports of Canadian gas could achieve. Recent decisions have provided for increased wellhead prices for new gas, and this will increase the opportunity price for Canadian gas.

The actions of OPEC have pushed up the price of oil imported into Eastern Canada and have helped the competitive position of natural gas in those areas supplied by imported oil. This perhaps exemplifies the old saying that it's an ill wind that blows no one any good.

It is no news to you that my department and other agencies are in the process of conducting a review of energy policy. One of the preliminary lessons of this review -- and this has been brought home to me by numerous examples during my relatively short term as Minister -- is that it is impossible to consider energy policy in isolation. It affects so many other areas of Canadian life that it can only be dealt with within the much broader context of economic and social policies for Canada.

I would now like to turn to some of the issues related to natural gas upon which the objectives of an energy policy must focus.

Perhaps the main issue, and the one to which the Government must continue to direct itself, is the question of how Canadians can best benefit from our resources. To answer this, I suggest, resource development must be treated as an integral part of the economic and social development strategy of our country.

Fundamental questions are being asked about how Canadians want to live, how Canadians can have the greatest possible freedom of choice and yet develop the country along lines that are consistent with the search for our destiny as an independent and prosperous nation.

The Government believes that resource development must contribute to the overall wellbeing of the nation and the individual. Resources are part of our heritage and they must be used wisely in a way to benefit all.

Natural gas is one of these resources. The impact of natural gas on Canada has been great and I mentioned some of the benefits a few minutes ago. As we are apparently at the threshold of vast newly discovered reserves in our northern latitudes, the question of benefits to Canadians needs to be re-examined.

The principle that we must set aside natural gas for Canadian requirements is not in issue. We have a law that requires this and all Canadians would expect that there be such safeguards. No one would deny our right and desire to keep in Canada what Canadians will need.

But as new fields are being developed, we will have to face some difficult questions. What will be the relationship of these new gas resources to the proven reserves in Alberta and British Columbia? How do we manage the very heavy financing costs of bringing Arctic gas to market? And what of the impact upon overall energy policy of the escalating cost of these products, and of the swiftly rising price for gas in the American market?

The development of Arctic resources imposes new challenges to the industry and to Government of even greater scale than those faced in the forties and fifties when Canada first embarked upon national utilization of natural gas. The role of the Federal Governmnent in the development of a resource within federal territory will be much more prominent than before, and the engineering and financing difficulties of bringing the product over such a vast and difficult terrain are going to require unique and imaginative solutions from the private sector.

I consider myself fortunate to have my present responsibilities at a time when such dramatic developments are occurring in your industry. And I am looking forward to a continuation of the cordial and constructive relations which in the past few months I have developed with members of your Association.